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KENT ECONOMIC
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# KEDI ECONOMIC SURVEY

December 1, 1987

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SOURCES:

U.S.Department of Commerce second estimate of 1987:3, National Income and Product data, November 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, November 1987.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

### HIGHLIGHTS

#### Real Growth

Durable orders and steelproduction up in October over September. Good news far outweighs bad news.

#### Prices

No substantial increases in 1988 and 1989 are forecast. KEDI shares optimistic outlook with a growing number of experts.

#### Employment & Labor

The job market in the United States will remain robust in 1988 with approximately 2.0 million new jobs.

#### Housing

October housing starts fell to a seasonally adjusted rate of 1.513 million units from September's 1.648 million units.

#### Automobiles

Forecast of sales for light trucks, especially pickups and minivans, remains optimistic while car sales remain sluggish.

#### Budgets

The Federal Budget deficit will continue declining at fairly good decrements in 1988 and 1989.

#### Income

Forecast data for 1988 show healthy growth of personal disposable income as well as business income.

#### Money & Credit

An easy money policy of the Fed is forecast for 1988. KEDI does not anticipate any further tightening.

#### Interest Rates, Yields & Securities Prices

The Federal Reserve will maintain the policy of low interest rates to avoid causing problems in economic growth.

## O.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1988, the weighted price of oil will increase as compared to 1987 It will continue increasing in the 1989-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will last throughout 1988. More tightening is not expected earlier than in 1989. | November 1987 |
| 3. | In 1988 and 1989 good crops in all main producing countries are anticipated. | September 1987 |
| 4. | Foreign trade with China will expand in 1988 and following years. | May 1987 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% reat Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6% | September 1987 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## O.03 FORECAST HIGHLIGHTS

* Table O.OO on page 3 shows forecast data of selected indicators of the November 1987 KEDI forecast.

* In 1988 moderate growth is expected. It will accelerate in the second half of 1988.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1991 do not point to recession or major downturn.

* In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.

* Federal budget deficits will keep declining in 1988 and the followiny years.

* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1987, 1988 and 1989 are on pages indicated below.

| Indicator | Unit | 1986 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3713.3 | 4197.7 | 4298.5 | 4410.2 |
| product, p. 5 | % change | 2.9 | 3.0 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 125.1 | 142.1 | 146.8 | 151.8 |
| prod., p. 5 | % change | 1.0 | 3.2 | 3.3 | 3.4 |
| Capacity | % | 79.6 | 81.7 | 80.9 | 80.2 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 5.9 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | 1.0 | -1.1 | -.9 |
| Private housing | mil.units | 1.8 | 1.8 | 1.8 | 1.8 |
| starts, p. 5 | % change | -4.2 | 3.3 | -2.0 | 3.5 |
| Car sales, | mil.units | 11.5 | 10.8 | 10.9 | 11.3 |
| p. 5 | % change | 3.2 | 2.9 | 1.1 | 4.0 |
| Implicit GNP | 1982=100 | 114.5 | 133.7 | 138.5 | 143.7 |
| price def.,p.11 | % change | 2.6 | 3.7 | 3.6 | 3.7 |
| Consumer Price | 1967=100 | 328.4 | 383.1 | 395.0 | 409.2 |
| Index, p. 11 | % change | 1.9 | 3.8 | 3.1 | 3.6 |
| Prod.Price Index | 1967=100 | 289.6 | 344.3 | 359.8 | 373.4 |
| (fin.goods),p.11 | % change | -1.6 | 4.2 | 4.5 | 3.8 |
| Federal Deficit | bil. $ | -220.0 | -97.0 | -78.4 | -63.0 |
| p. 21 | % change | 8.2 | -11.2 | -19.1 | -19.7 |
| Personal Income | bil. $ | 3534.3 | 4746.0 | 5064.0 | 5443.8 |
| p. 23 | % change | 5.8 | 6.9 | 6.7 | 7.5 |
| Prime Rate | % | 8.3 | 8.4 | 9.0 | 9.7 |
| p. 27 | % change | -11.6 | -4.8 | 7.2 | 7.8 |
| Mortgage Rate | % | 9.8 | 10.4 | 9.9 | 10.1 |
| p. 27 | % change | -11.7 | 5.8 | -2.7 | 1.8 |
| Currency+demand | bil. $ | 673.2 | 890.8 | 948.7 | 1013.2 |
| deposits , p. 25 | % change | 13.4 | 7.5 | 6.5 | 6.8 |
| Commercial+ind. | bil. $ | 517.6 | 605.8 | 552.1 | 619.8 |
| loans, p. 25 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 87.4 | 91.2 | 90.8 | 91.3 |
| production | % change | -.1 | .4 | .9 | .4 |
| Electric power | mil.kw-hr | 2614 | 3355.8 | 3342.8 | 3499.6 |
| production | % change | 6.0 | 3.8 | 3.7 | 4.7 |
| Bituminous coal | mil.sh.tons | 872 | 936 | 973.3 | 984.1 |
| production | % change | -.1 | 1.1 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3261 | 2361 | 2371.7 | 2426.2 |
| output | % change | .8 | 2.1 | 2.2 | 2.3 |
| Retail sales | bil. $ | 1454.4 | 1864.7 | 1982.2 | 2120.9 |
| p. 7 | % change | 6.0 | 7.0 | 6.3 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
November 1987
Forecast

| | | |
|---|---|---|
| + 1.03% | Private Housing Starts |
| + .82% | Unemp-ploy-ment |
| + .68% | Capac. Util. |
| + .26% | Index Indus. Prod. |
| + .25% | Autos |
| - .05% | GNP |

DURABLE ORDERS AND STEEL PRODUCTION UP IN OCTOBER OVER SEPTEMBER. GOOD NEWS FAR OUTWEIGHTS BAD NEWS:

1. Purchasing Managers surveyed in mid-November by the National Association of Purchasing Management were extremely optimistic about the 1988 outlook. This year's fourth quarter will be better than the third and next year's first half will be better than the second half of 1987. The growth will slow down somewhat in the second half of 1988.

2. Durable orders received by manufacturers rose in October to a seasonally adjusted $109.57 bil. from $109.27 bil. in September. Nondefense orders, a good barometer of future economic activity increased by .6% after a revised .7% in September, pushed mainly by stepped-up investments in response to rising exports.

3. Production of raw steel rose to 8.1 mil. tons in October from 7.7 mil. tons in September.

4. IIP rose to 131.7% in October from 130.9 in September.

5. Data on production of manufacturers point to a boom, notably rubber, plastics, chemicals, aerospace, fabricated metal products, electronics, semiconductors, aluminum, forest products, lumbers, textile, clay, glass, and stone.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unem-ploy ment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 3713.3 | 125.1 | 7.04 | 79.6 | 1.805 | 11.5 |
| 1987:1* | 3772.2 | 126.9 | 6.67 | 80.1 | 1.822 | 9.6 |
| 2* | 3795.3 | 128.2 | 6.23 | 80.2 | 1.612 | 9.5 |
| 3 | 3833.4 | 130.8 | 5.92 | 81.0 | 1.536 | 10.1 |
| 4 | 3862.4 | 132.1 | 5.94 | 81.4 | 1.470 | 9.7 |
| YEAR | 3815.8 | 129.5 | 6.19 | 79.6 | 1.610 | 9.7 |
| % change from '86 | 2.8 | 3.5 | -12.1 | 0.0 | -10.8 | -15.4 |
| 1988:1 | 3883.0 | 132.9 | 5.90 | 81.8 | 1.610 | 9.6 |
| 2 | 3891.9 | 134.6 | 5.87 | 81.9 | 1.716 | 10.0 |
| 3 | 3928.4 | 136.1 | 5.80 | 82.0 | 1.793 | 11.1 |
| 4 | 4059.6 | 136.2 | 5.74 | 82.1 | 1.751 | 10.6 |
| YEAR | 3940.7 | 134.9 | 5.83 | 82.0 | 1.718 | 10.3 |
| % change from '87 | 3.3 | 4.2 | -5.9 | 3.0 | 6.7 | 6.2 |
| 1989:1 | 4065.1 | 136.7 | 5.78 | 82.0 | 1.631 | 10.0 |
| 2 | 4070.3 | 137.3 | 5.86 | 81.9 | 1.766 | 10.4 |
| 3 | 4077.3 | 138.0 | 5.88 | 81.7 | 1.856 | 10.9 |
| 4 | 4089.2 | 138.7 | 5.92 | 81.0 | 1.792 | 10.5 |
| YEAR | 4075.5 | 137.7 | 5.86 | 81.7 | 1.761 | 10.4 |
| % change from '88 | 3.4 | 2.0 | .6 | -.4 | 2.5 | 1.2 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change from November 1987 Forecast

| | |
|---|---|
| + 1.10% | Pers. Con. Exp. Durables |
| + .72% | Retail Sales Nondurable |
| + .56% | Pers. Con. Exp. Nondurable |
| + .07% | Retail Sales Total |
| - .32% | Pers. Con. Exp. Services |
| - .94% | Retail Sales Total |

SEEMINGLY DISAPPOINTING RESULTS FOR NOVEMBER IN CONSUMER SPENDING AND RETAIL SALES.

Some negatively-minded journalists and economists look at the data as a consequence of the October stock market crash.

The fact is, however, that November retail sales are always sluggish and the preliminary November data do not signal any turn-around.

KEDI maintains its forecast of strong December sales, specifically the Christmas shopping spree.

There are no indications that would point to any sluggishness due to the plung of the stock market in October.

First data on Thanksgiving sales point already to the turnaround--sales, in general, strengthened and indicate that November has ended on a positive note.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *--Personal Cons. Expend.- Durables | Nondur-ables | **Services | ------Retail Sales------* Total | Durables | Nondur-ables |
|---|---|---|---|---|---|---|
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1986* | 402.4 | 939.4 | 1458.0 | 1454.4 | 568.1 | 888.3 |
| 1987:1* | 396.1 | 969.9 | 1527.7 | 1483.2 | 541.4 | 926.8 |
| 2* | 409.0 | 982.1 | 1552.6 | 1515.6 | 560.1 | 955.5 |
| 3 | 434.8 | 987.2 | 1583.0 | 1560.0 | 581.9 | 978.1 |
| 4 | 427.8 | 998.7 | 1632.0 | 1579.1 | 598.9 | 980.2 |
| YEAR | 416.9 | 984.5 | 1573.8 | 1534.5 | 570.6 | 960.1 |
| % change from '86 | 3.6 | 4.8 | 7.9 | 5.5 | .4 | 8.1 |
| 1988:1 | 422.8 | 1016.5 | 1691.2 | 1595.0 | 613.0 | 982.0 |
| 2 | 427.7 | 1034.1 | 1719.2 | 1615.4 | 621.5 | 993.9 |
| 3 | 439.7 | 1049.1 | 1739.2 | 1659.3 | 650.8 | 1008.5 |
| 4 | 449.5 | 1056.2 | 1909.4 | 1685.5 | 662.1 | 1023.4 |
| YEAR | 434.9 | 1039.0 | 1764.8 | 1638.8 | 636.9 | 1002.0 |
| % change from '87 | 4.3 | 5.5 | 12.1 | 6.8 | 11.6 | 4.4 |
| 1989:1 | 454.2 | 1068.8 | 1942.7 | 1716.4 | 586.6 | 1129.8 |
| 2 | 458.4 | 1083.9 | 1958.3 | 1731.0 | 690.7 | 1040.3 |
| 3 | 459.8 | 1095.7 | 2091.7 | 1750.4 | 709.2 | 1041.2 |
| 4 | 468.5 | 1108.2 | 2086.1 | 1773.1 | 719.5 | 1053.6 |
| YEAR | 460.2 | 1089.2 | 2019.7 | 1742.7 | 676.5 | 1066.2 |
| % change from '88 | 5.8 | 4.8 | 14.4 | 6.3 | 6.2 | 6.4 |

## 1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

| Percent Change from November 1987 Forecast | |
|---|---|
| + 5.34% | Net Exports |
| + .41% | Pers. Cons. Expend. |
| +. 07% | Gross Private Dom. Inv. |
| - .05% | GNP |
| - .66% | State Local Purch. |
| - 1.15% | Federal Govt. Purch. |

DATA ON THIRD QUARTER ESTIMATES OF REAL GROWTH SHOW NEARLY 4.1% GROWTH--FAIRLY GOOD PERFORMANCE.

Data on the second estimate of Real GNP in the third quarter of this year are a bit better than those of the first estimate.

The second estimate is .3 percentage points larger than the first estimate, mainly due to the upward revision in farm inventory investment and downward revision of net exports.

According to these revised data, GNP in the third quarter grew at 4.1% annual rate. All indications are that a near 4% growth rate will be maintained as well in the final quarter of this year, mainly: further reduction in real net exports, good increments in personal consumption, and fairly good growth in business fixed investment.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *----------Gross National Product---------- | | | | | * |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1986* | 3713.3 | 2450.5 | 654.0 | -145.8 | 332.5 | 422.1 |
| 1987:1* | 3772.2 | 2475.9 | 671.8 | -135.2 | 327.3 | 432.3 |
| 2* | 3795.3 | 2487.5 | 673.7 | -132.7 | 332.6 | 434.4 |
| 3 | 3831.2 | 2517.2 | 682.0 | -134.9 | 333.3 | 435.8 |
| 4 | 3862.4 | 2557.0 | 671.1 | -138.9 | 336.1 | 437.1 |
| YEAR | 3815.8 | 2509.4 | 674.6 | -135.4 | 332.3 | 434.9 |
| % change from '86 | 2.8 | 2.4 | 3.2 | -7.1 | -.1 | 3.0 |
| 1988:1 | 3883.0 | 2564.8 | 667.0 | -128.0 | 338.4 | 440.8 |
| 2 | 3891.9 | 2558.4 | 674.9 | -124.1 | 340.2 | 442.5 |
| 3 | 3928.4 | 2584.4 | 674.7 | -119.4 | 343.8 | 444.9 |
| 4 | 4059.6 | 2700.2 | 681.4 | -118.1 | 348.1 | 448.0 |
| YEAR | 3940.7 | 2601.9 | 674.5 | -122.4 | 342.6 | 444.1 |
| % change from '87 | 3.3 | 3.7 | -.0 | -9.6 | 3.1 | 2.1 |
| 1989:1 | 4065.1 | 2697.9 | 682.0 | -115.1 | 350.2 | 450.1 |
| 2 | 4070.3 | 2694.2 | 683.2 | -113.6 | 352.6 | 453.9 |
| 3 | 4077.3 | 2694.7 | 679.8 | -110.4 | 356.8 | 456.4 |
| 4 | 4089.2 | 2699.1 | 681.9 | -111.5 | 359.8 | 459.9 |
| YEAR | 4075.5 | 2701.2 | 681.7 | -112.7 | 350.1 | 455.1 |
| % change from '88 | 3.4 | 3.8 | 1.1 | -8.0 | 2.2 | 2.5 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

## 1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
November 1987
Forecast

- .01% Consumer Price Index
- .12% Producer Price Index
- .17% State Local Purch.
- .20% GNP
- .27% Federal Govt. Purch.
- .29% Pers. Cons. Expend.

NO SUBSTANTIAL INCREASES IN 1988 AND 1989 ARE FORECAST. KEDI SHARES THIS OPTIMISTIC OUTLOOK WITH A GROWING NUMBER OF EXPERTS.

For example, the semi-annual survey of the National Association of Purchasing Managers shows that prices will go up in 1988 by 3.6%, compared to the estimated 3.2% this year. That complies essentially with the KEDI forecast for CPI of 3.9% for next year. KEDI forecast of basic indicators of prices is in Table 1.21 on the following page.

The forecast shows that inflationary pressures of an expanding economy and a weaker dollar will not translate into a significant increase in inflation.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | *---Indexes--* Cons. price index n.s.a.** | Prod. price index n.s.a.** | *-------Price deflators--------* Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
|---|---|---|---|---|---|---|
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1986* | 328.4 | 289.7 | 114.1 | 114.3 | 110.2 | 119.3 |
| 1987:1* | 334.8 | 292.1 | 116.1 | 116.9 | 112.1 | 122.4 |
| 2* | 338.8 | 296.0 | 117.1 | 118.3 | 114.1 | 123.9 |
| 3 | 342.2 | 298.1 | 117.9 | 119.4 | 113.7 | 125.6 |
| 4 | 345.5 | 303.0 | 118.8 | 119.6 | 115.0 | 127.0 |
| YEAR | 340.3 | 297.3 | 117.5 | 118.6 | 113.7 | 124.7 |
| % change from '86 | 3.6 | 2.6 | 3.0 | 3.7 | 3.2 | 4.5 |
| 1988:1 | 348.8 | 306.9 | 120.5 | 122.1 | 116.0 | 128.1 |
| 2 | 352.0 | 312.0 | 122.0 | 124.3 | 117.5 | 129.1 |
| 3 | 355.4 | 317.1 | 122.8 | 124.9 | 118.7 | 131.7 |
| 4 | 358.8 | 319.3 | 124.1 | 126.5 | 120.1 | 132.6 |
| YEAR | 353.8 | 313.8 | 122.3 | 124.4 | 118.1 | 130.4 |
| % change from '87 | 3.9 | 5.6 | 4.1 | 5.0 | 3.8 | 4.5 |
| 1989:1 | 362.7 | 323.0 | 125.6 | 128.5 | 121.5 | 133.0 |
| 2 | 366.3 | 328.5 | 127.0 | 129.9 | 122.7 | 135.0 |
| 3 | 370.6 | 333.1 | 131.2 | 135.3 | 124.0 | 137.1 |
| 4 | 376.8 | 337.0 | 132.0 | 135.7 | 126.1 | 139.2 |
| YEAR | 369.1 | 330.4 | 128.9 | 132.4 | 123.6 | 136.1 |
| % change from '88 | 4.3 | 5.3 | 5.4 | 6.4 | 4.7 | 4.4 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
November 1987
Forecast

| | | |
|---|---|---|
| + | 5.39% | Net Exports |
| + | .15% | Pers. Cons. Expend. |
| + | .03% | Gross Private Dom. Inv. |
| - | .24% | GNP |
| - | .79% | State Local Purch. |
| - | .29% | Federal Govt. Purch. |

OIL IMPORTS ARE INCREASING AT PERCIPITOUS RATES AND ARE NEGATING GAINS IN EXPORTS. WE ARE RIGHT BACK WHERE WE WE STOOD IN 1985 AND BEFORE.

Compared to the first estimate of the 1987:3 nominal GNP, the second estimage recently released by the U. S. Department of Commerce shows that nominal GNP in the third quarter increased by 7.0%, compared to the second quarter increase by 6.3%. Data on components indicate a balanced growth, a positive sign: the estimate of negative foreign trade has been reduced somewhat from $121.7 bil. of the first estimate to $119.8 bil. in the second estimate. That does not tell too much. KEDI forecast of the trade deficit for the fourth quarter of 1987 shows that the deficit will increase mainly due to the increase in imports of oil.

IMPORTS OF PETROLEUM PRODUCTS
(bil. $)

| 1985 | 1986 | 1987:1 |
|---|---|---|
| 50.4 | 33.8 | 34.8 |

| 1987:2 | 1987:3 | 1987:4 |
|---|---|---|
| 40.0 | 54.0 | 57.8 |

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *----------Gross National Product---------- | | | | | * |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 4235.0 | 2799.8 | 671.0 | -105.5 | 366.2 | 503.5 |
| 1987:1* | 4377.7 | 2893.8 | 699.7 | -112.2 | 366.9 | 529.3 |
| 2* | 4445.1 | 2943.7 | 702.6 | -118.4 | 379.6 | 537.6 |
| 3 | 4512.0 | 3006.7 | 707.4 | -119.8 | 378.8 | 547.3 |
| 4 | 4588.5 | 3058.5 | 709.0 | -120.6 | 386.5 | 555.1 |
| YEAR | 4482.6 | 2975.3 | 704.7 | -117.8 | 378.0 | 542.3 |
| % change from '86 | 5.8 | 6.3 | 5.0 | 11.6 | 3.2 | 7.7 |
| 1988:1 | 4679.0 | 3130.5 | 710.2 | -118.9 | 392.5 | 564.7 |
| 2 | 4748.1 | 3181.0 | 713.8 | -117.7 | 399.7 | 571.3 |
| 3 | 4824.1 | 3228.0 | 712.9 | -110.8 | 408.1 | 585.9 |
| 4 | 5038.0 | 3415.1 | 720.7 | -110.0 | 418.1 | 594.0 |
| YEAR | 4822.3 | 3238.7 | 714.4 | -114.3 | 404.6 | 579.0 |
| % change from '87 | 7.6 | 8.8 | 1.4 | -2.9 | 7.1 | 6.8 |
| 1989:1 | 5105.8 | 3465.7 | 725.1 | -109.2 | 425.5 | 598.6 |
| 2 | 5169.3 | 3500.6 | 730.4 | -107.1 | 432.6 | 612.8 |
| 3 | 5349.4 | 3647.2 | 732.5 | -98.4 | 442.4 | 625.7 |
| 4 | 5397.7 | 3662.8 | 733.3 | -92.2 | 453.7 | 640.2 |
| YEAR | 5255.3 | 3575.3 | 730.3 | -101.7 | 438.6 | 619.3 |
| % change from '88 | 9.0 | 10.4 | 2.2 | -11.0 | 8.4 | 7.0 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from November 1987 Forecast

| | | |
|---|---|---|
| + | .02% | Population |
| | 0.00% | Agriculture |
| - | .26% | Unemployment rate |
| - | .63% | Total Employed |
| - | .65% | Non-Agri. |
| - | .67% | Civilian Labor Force |

THE JOB MARKET IN THE UNITED STATES WILL REMAIN ROBUST IN 1988 WITH APPROXIMATELY 2.0 MILLION NEW JOBS.

The 1988 outlook of employment is optimistic. Indications are that the October stock market plunge has not affected hiring plans.

On the contrary, a recently conducted broad survey of more than 1300 companies by Manpower Inc. out of Milwaukee has shown:

* 21% of companies plan to increase their work force in the coming quarter compared to 19% of the last year for a comparable period.
* Firms planning to cut their work force in the first quarter of 1988 dropped to 12%, compared to last years's 14%.
* 96% of companies resurveyed in mid-November confirmed their initial hiring plans despite the stock market turmoil.
* 26% of durable-goods manufacturers expect to hire more workers, while 11% plan to cut back.
* 26% of service businesses expect to hire more employees while only 7% expect to reduce staff levels

Forecasts of many economists point to the 1.5-3.5 million new jobs in 1988 despite negative signals from the stock market.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Popu-lation | Civil. labor force | *-------Employment-------* Total | Agri-cult. | Non-agric. | Unem-ploy-ment rate |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1986* | 241.5 | 119.5 | 109.6 | 3.2 | 106.4 | 7.04 |
| 1987:1* | 242.9 | 119.8 | 111.2 | 3.2 | 108.1 | 6.67 |
| 2* | 243.8 | 121.5 | 113.9 | 3.1 | 110.8 | 6.23 |
| 3 | 245.0 | 122.4 | 115.2 | 3.1 | 112.1 | 5.92 |
| 4 | 246.9 | 123.5 | 116.2 | 3.1 | 113.1 | 5.94 |
| YEAR | 244.7 | 121.8 | 114.7 | 3.1 | 111.5 | 6.19 |
| % change from '86 | 1.3 | 1.9 | 1.8 | -2.3 | 4.8 | -12.07 |
| 1988:1 | 247.9 | 124.3 | 117.0 | 3.1 | 113.9 | 5.90 |
| 2 | 249.6 | 125.1 | 117.8 | 3.1 | 114.7 | 5.87 |
| 3 | 250.4 | 125.6 | 118.3 | 3.1 | 115.2 | 5.80 |
| 4 | 251.5 | 126.0 | 118.8 | 3.1 | 115.7 | 5.74 |
| YEAR | 249.8 | 125.2 | 118.0 | 3.1 | 114.9 | 5.83 |
| % change from '87 | 2.1 | 2.8 | 3.0 | -.8 | 3.0 | -5.86 |
| 1989:1 | 253.9 | 126.7 | 119.4 | 3.1 | 116.3 | 5.78 |
| 2 | 254.3 | 127.4 | 119.9 | 3.0 | 116.9 | 5.86 |
| 3 | 255.1 | 128.1 | 120.6 | 3.0 | 117.6 | 5.88 |
| 4 | 256.0 | 129.0 | 121.4 | 3.0 | 118.4 | 5.92 |
| YEAR | 254.8 | 127.8 | 120.3 | 3.1 | 117.2 | 5.86 |
| % change from '88 | 2.0 | 2.0 | 2.0 | 0.0 | 2.1 | .56 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
November 1987
Forecast

| | | |
|---|---|---|
| + | .95% | Permits Issued |
| + | .62% | Mobile Home Shipments |
| - | .02% | 1-Family Unit price Existing |
| - | .04% | Single Family Housing Starts |
| - | .58% | Multiple Family Housing Starts |
| - | .75% | 1-Family Unit price New |

OCTOBER HOUSING STARTS FELL TO A SEASONALLY ADJUSTED RATE OF 1.513 MILLION UNITS FROM SEPTEMBER'S 1.648 MILLION.

This is the lowest level of building activity since April 1983. The number of building permits also fell by 3.4% from September's 1.502 million and October's 1.450 million units, seasonally adjusted.

KEDI forecast calls for further declines in November and December of this year and sluggishness in the first months of 1988.

The number of houses started this year is down by 12% compared to last year.

The main reason for the decline is that the housing cycle is winding down and will hit the trough in the first half of 1988. High mortgage are not considered a significant factor.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1986* | 1.179 | .628 | .244 | 1.750 | 112.2 | 98.3 |
| 1987:1* | 1.256 | .539 | .234 | 1.684 | 121.1 | 103.9 |
| 2* | 1.136 | .476 | .232 | 1.547 | 125.9 | 105.8 |
| 3 | 1.111 | .425 | .230 | 1.501 | 131.4 | 108.2 |
| 4 | 1.063 | .407 | .241 | 1.440 | 136.0 | 113.1 |
| YEAR | 1.141 | .462 | .234 | 1.543 | 128.6 | 107.8 |
| % change from '86 | -3.2 | -26.5 | -4.0 | -11.8 | 14.6 | 9.6 |
| 1988:1 | 1.126 | .484 | .225 | 1.501 | 138.4 | 113.9 |
| 2 | 1.224 | .492 | .241 | 1.592 | 141.1 | 115.9 |
| 3 | 1.259 | .534 | .256 | 1.679 | 143.2 | 118.7 |
| 4 | 1.201 | .550 | .248 | 1.624 | 145.4 | 122.2 |
| YEAR | 1.202 | .515 | .242 | 1.599 | 142.0 | 117.7 |
| % change from '87 | 5.3 | 11.5 | 3.5 | 3.6 | 10.4 | 9.2 |
| 1989:1 | 1.130 | .501 | .236 | 1.507 | 150.1 | 124.6 |
| 2 | 1.218 | .548 | .240 | 1.648 | 151.6 | 127.3 |
| 3 | 1.269 | .587 | .282 | 1.760 | 152.4 | 130.1 |
| 4 | 1.218 | .574 | .274 | 1.969 | 153.0 | 133.9 |
| YEAR | 1.209 | .552 | .258 | 1.721 | 151.8 | 129.0 |
| % change from '88 | .5 | 7.3 | 6.4 | 7.6 | 6.9 | 9.6 |

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

| Percent Change from November 1987 Forecast | |
|---|---|
| + 1.43% | Total Light Truck Sales |
| + .34% | Domestic Car Sales |
| + .33% | Shipments |
| + .24% | Total Car Sales |
| 0.00% | Dealer Inventory |
| 0.00% | Imported Car Sales |

FORECAST OF SALES FOR LIGHT TRUCKS, ESPECIALLY PICKUPS AND MINIVANS, REMAINS OPTIMISTIC WHILE CAR SALES REMAIN SLUGGISH.

November sales are expected to decline 5-6% compared to the October data. That decline has been widely anticipated months ago and all indications are that it has nothing in common with the October stock market plunge. It is just a cyclical decline which will continue up to the first half of next year when the automobile cycle will start winding up. Thus, the forecast for December sales of cars points, again, to sluggish sales. This year's December sales will be slow when compared to December 1986 because there will be no repeating of last year when consumers rushed to purchase before year end to get full deductions of sales taxes and interest payments.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 11.5 | 8.2 | 3.2 | 1.5 | 7.5 | 3.7 |
| 1987:1* | 9.6 | 7.0 | 2.6 | 1.9 | 7.7 | 3.4 |
| 2* | 9.5 | 6.8 | 2.7 | 1.9 | 7.5 | 3.5 |
| 3 | 10.1 | 7.0 | 3.1 | 1.8 | 7.7 | 3.6 |
| 4 | 9.7 | 6.7 | 2.9 | 1.7 | 7.5 | 3.6 |
| YEAR | 9.7 | 6.9 | 2.8 | 1.7 | 7.6 | 3.5 |
| % change from '86 | -15.4 | -16.2 | -11.7 | 13.3 | 1.3 | -4.7 |
| 1988:1 | 9.6 | 6.8 | 2.8 | 1.8 | 7.3 | 3.3 |
| 2 | 10.0 | 7.1 | 2.9 | 1.7 | 7.5 | 3.4 |
| 3 | 11.1 | 7.9 | 3.2 | 1.7 | 8.0 | 3.8 |
| 4 | 10.6 | 7.5 | 3 | 1.6 | 7.7 | 3.7 |
| YEAR | 10.3 | 7.3 | 3.0 | 1.6 | 7.6 | 3.5 |
| % change from '87 | 6.2 | -.0 | 6.2 | -5.9 | .3 | .7 |
| 1989:1 | 10.0 | 7.0 | 3.0 | 1.7 | 7.3 | 3.2 |
| 2 | 10.4 | 7.4 | 3.0 | 1.8 | 7.5 | 3.5 |
| 3 | 10.9 | 7.8 | 3.1 | 1.7 | 7.8 | 3.7 |
| 4 | 10.5 | 7.4 | 3.1 | 1.7 | 7.7 | 3.5 |
| YEAR | 10.4 | 7.4 | 3.0 | 1.7 | 7.6 | 3.5 |
| % change from '88 | 1.2 | -.5 | 1.7 | 6.2 | -.7 | -2.1 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987 FORECAST DATA

Percent Change from November 1987 Forecast

| | |
|---|---|
| + .76% | Federal Surplus/ Deficit |
| + .04% | Corp. Profit Tax Accrued |
| + .01% | Federal Income Tax |
| 0.00% | State Local Corp. Tax Accrued |
| 0.00% | State Surplus/ Deficit |
| - .03% | State Income Tax |

FEDERAL BUDGET DEFICIT WILL CONTINUE DECLINING AT FAIRLY GOOD DECREMENTS IN 1988 AND 1989.

It is assumed that the compromise deficit reduction measures negotiated recently by the Administration and Congressional representatives, i.e., to redyce the deficit for FY 1988 by $26.1 bil. and for FY 1989 by $31.85 bil. will be approved by Congress.

Forecast data show that the equilibrium of the total Government sector will be achieved approximately in 1991:

| | Federal Deficits (in bil $, calendar yrs) | State and Local Surpluses |
|---|---|---|
| 1987 | 150 | 49 |
| 1988 | 135 | 56 |
| 1989 | 109 | 61 |
| 1990 | 86 | 63 |
| 1991 | 74 | 65 |
| 1992 | 65 | 67 |

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----FEDERAL----------* Income taxes | Corp. profits tax accru. | Surplus /deficit | *---STATE AND LOCAL----* Income taxes | Corp. profits tax accru. | Surplus /deficit |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 363.0 | 83.7 | -204.3 | 149.8 | 21.3 | 56.8 |
| 1987:1* | 381.5 | 103.0 | -170.5 | 154.6 | 25.0 | 41.0 |
| 2* | 415.6 | 107.9 | -139.2 | 162.3 | 26.4 | 50.6 |
| 3 | 404.9 | 111.1 | -143.7 | 161.8 | 26.6 | 51.0 |
| 4 | 419.8 | 113.0 | -149.0 | 163.9 | 27.4 | 52.1 |
| YEAR | 405.4 | 108.8 | -150.6 | 160.7 | 26.4 | 48.7 |
| % change from '86 | 11.7 | 29.9 | -26.3 | 7.2 | 23.7 | -14.3 |
| 1988:1 | 424.3 | 115.0 | -143.1 | 168.5 | 28.1 | 53.2 |
| 2 | 429.8 | 120.1 | -137.2 | 170.9 | 29.3 | 54.7 |
| 3 | 436.6 | 121.7 | -131.8 | 176.0 | 30.2 | 56.9 |
| 4 | 448.6 | 124.2 | -128.4 | 181.2 | 32.0 | 58.8 |
| YEAR | 434.8 | 120.2 | -135.1 | 174.2 | 29.9 | 55.9 |
| % change from '87 | 7.2 | 10.6 | -10.3 | 8.4 | 13.5 | 14.8 |
| 1989:1 | 452.1 | 125.0 | -118.1 | 183.4 | 32.1 | 59.8 |
| 2 | 457.2 | 127.1 | -110.2 | 185.3 | 33.7 | 60.7 |
| 3 | 466.4 | 129.9 | -106.3 | 187.7 | 35.3 | 61.7 |
| 4 | 471.6 | 132.7 | -102.2 | 192.0 | 37.1 | 63.0 |
| YEAR | 461.8 | 128.7 | -109.2 | 187.1 | 34.5 | 61.3 |
| % change from '88 | 6.2 | 7.0 | -19.2 | 7.4 | 15.6 | 9.7 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

| Percent Change from November 1987 Forecast | |
|---|---|
| + .04% | Comp. of Employees |
| - .08% | Personal Income |
| - .09% | Personal Disp. Income |
| - .20% | Average Weekly Earnings |
| - 1.28% | Corp. After Tax Earnings |
| - 9.96% | Personal Savings |

FORECAST DATA FOR 1988 SHOW HEALTHY GROWTH OF PERSONAL DISPOSABLE INCOME AS WELL AS BUSINESS INCOME.

Personal Disposable Income is expected to grow by 8%, due to stimulating effects of the new tax law by increasing employment, and increases in wage rates in general.

Business Income will also increase significantly--corporate retained earnings will increase by approximately 10% in 1988 compared to 1987, mainly due to the rapid growth of virtually all segments of manufacturing, and solid increases in the service sector.

So far, data released after the October stock market plunge, both actual November data and November data on plans of business for 1988 do not point to significant negative effects of the decline in value of stocks held by consumers and businesses.

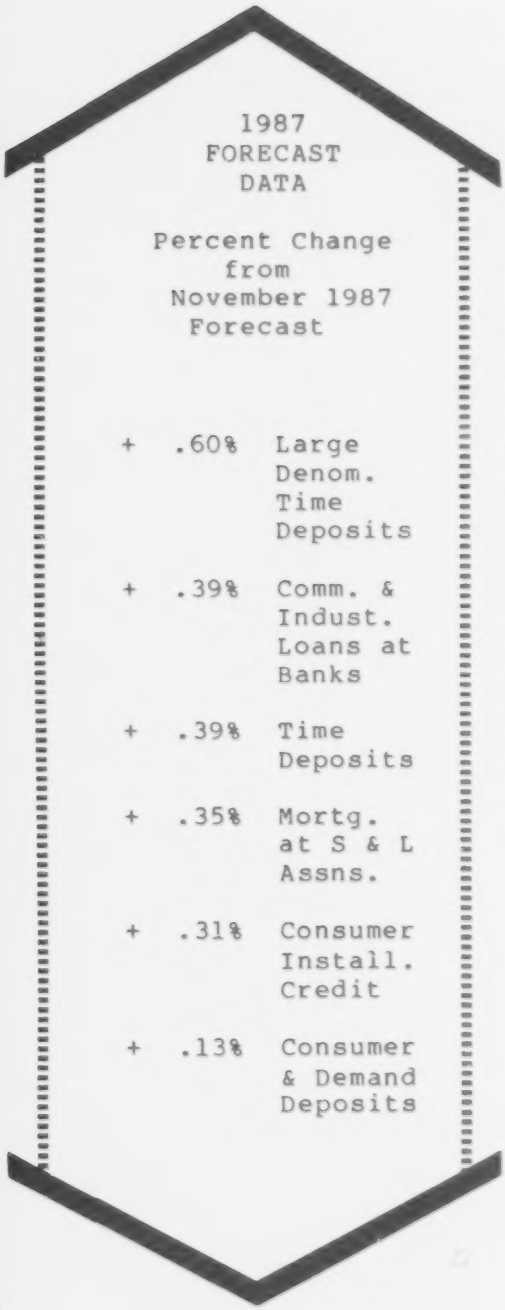
TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1986* | 3534.3 | 3022.1 | 2504.9 | 126.8 | 130.6 | 382.0 |
| 1987:1* | 3662.0 | 3125.9 | 2589.9 | 129.0 | 138.4 | 391.2 |
| 2* | 3708.6 | 3130.6 | 2623.8 | 134.5 | 93.2 | 403.1 |
| 3 | 3756.7 | 3191.1 | 2660.1 | 141.5 | 89.0 | 406.6 |
| 4 | 3831.8 | 3268.3 | 2740.9 | 148.2 | 89.8 | 408.3 |
| YEAR | 3739.8 | 3179.0 | 2653.7 | 138.3 | 102.6 | 402.3 |
| % change from '86 | 5.8 | 5.2 | 5.9 | 9.1 | -21.4 | 5.3 |
| 1988:1 | 3920.7 | 3327.9 | 2786.4 | 158.1 | 93.5 | 409.9 |
| 2 | 3982.7 | 3382.0 | 2820.1 | 160.3 | 95.6 | 413.9 |
| 3 | 4046.1 | 3433.5 | 2996.6 | 164.2 | 98.3 | 417.9 |
| 4 | 4255.5 | 3625.7 | 2940.6 | 167.0 | 102.3 | 420.6 |
| YEAR | 4051.3 | 3442.3 | 2885.9 | 162.4 | 97.4 | 415.6 |
| % change from '87 | 8.3 | 8.3 | 8.8 | 17.4 | -5.0 | 3.3 |
| 1989:1 | 4317.1 | 3681.6 | 2982.4 | 174.8 | 105.7 | 423.1 |
| 2 | 4363.2 | 3720.7 | 2982.7 | 178.0 | 108.4 | 425.2 |
| 3 | 4525.0 | 3870.9 | 3053.1 | 184.1 | 110.5 | 427.0 |
| 4 | 4553.4 | 3889.8 | 3089.3 | 185.5 | 112.5 | 428.3 |
| YEAR | 4439.7 | 3790.7 | 3026.9 | 180.6 | 109.3 | 425.9 |
| % change from '88 | 9.6 | 10.1 | 4.9 | 11.2 | 12.2 | 2.5 |

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25




AN EASY MONEY POLICY OF THE FED IS FORECAST FOR 1988.

KEDI anticipates that the tightening in monetary policy that occurred in the second and third quarters of 1987 was a temporary episode and will not be repeated in 1988.

Compared to this year, some slowing down in the growth of credit aggregates in 1988 is expected--however, it will not be as significant to affect negatively the growth of the economy.

Forecast data points to a slowdown in all categories of credit, and to the resumption of a faster growth in the second half of 1988.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 673.2 | 2650.8 | 577.8 | 517.6 | 447.1 | 553.1 |
| 1987:1* | 732.3 | 2821.7 | 579.5 | 520.4 | 449.3 | 547.4 |
| 2* | 750.5 | 2840.3 | 585.3 | 526.1 | 459.8 | 550.8 |
| 3 | 750.8 | 2865.9 | 604.3 | 532.8 | 467.0 | 554.1 |
| 4 | 759.4 | 2911.3 | 613.8 | 541.0 | 474.8 | 558.1 |
| YEAR | 748.2 | 2859.8 | 612.8 | 541.2 | 474.1 | 558.1 |
| % change from '86 | 11.1 | 7.9 | 6.1 | 5.3 | 6.0 | .9 |
| 1988:1 | 771.2 | 2962.4 | 618.6 | 546.4 | 480.6 | 560.1 |
| 2 | 779.8 | 3043.5 | 627.9 | 550.8 | 487.9 | 564.3 |
| 3 | 795.4 | 3091.7 | 635.3 | 556.2 | 498.4 | 573.1 |
| 4 | 809.8 | 3138.5 | 655.6 | 562.2 | 503.8 | 580.2 |
| YEAR | 789.0 | 3059.0 | 655.6 | 562.2 | 503.8 | 580.2 |
| % change from '87 | 5.5 | 7.0 | 7.0 | 3.9 | 6.3 | 4.0 |
| 1989:1 | 816.3 | 3196.5 | 663.2 | 571.4 | 506.5 | 582.1 |
| 2 | 824.5 | 3232.8 | 670.1 | 510.3 | 513.4 | 585.6 |
| 3 | 831.5 | 3309.5 | 684.8 | 573.5 | 519.6 | 590.0 |
| 4 | 842.4 | 3358.7 | 700.2 | 587.0 | 536.5 | 607.1 |
| YEAR | 828.7 | 3274.4 | 700.2 | 587.0 | 536.5 | 607.1 |
| % change from '88 | 5.0 | 7.0 | 6.8 | 4.4 | 6.5 | 4.6 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
November 1987
Forecast

| | |
|---|---|
| + 1.15% | Treas. Bills 3 mo. Yield |
| + .26% | 20 Year Govt. Bond Yield |
| - .05% | Aaa Corp. Bond Rate |
| - .83% | Conv. Mortg. Rate |
| - 1.65& | S & P's 500 Avg |
| - 3.08% | Prime Rate |

KEDI ANTICIPATES THAT THE FEDERAL RESERVE WILL MAINTAIN THE POLICY OF LOW INTEREST RATES IN ORDER TO AVOID CAUSING DIFFICULTIES IN THE GROWTH OF THE ECONOMY.

So far, post-October data for the economy do not indicate any ssignificant effects of the stock market crash. On the contrary, there is encouraging news in many segments of the economy, and bond markets (except municipal bonds) are in better shape than they were ever before in 1987.

Indications point further that consequences of the stock market crash will not be serious--if there is any at all in 1988.

In economic terms, the income effect is, and is expected to remain, much stronger than the wealth effect. Forecast data point to continuous, healthy increases in consumer income and business income in 1988 which far outweigh the loss on net worth due to a decline of value of stocks.

Forecast data in Table 1.8 show low interest rates prevailing in 1988 and some tightening no earlier than in 1989.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR<br>Unit | Treas. bills 3 mo. yield<br>% | Prime rate<br>% | Conv. mortg rate<br>% | Aaa corp. bond rate<br>% | 30 yr. Govt. bonds yield<br>% | S & P's 500 Avg 1941-43 = 10 |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1986* | 5.97 | 8.33 | 9.82 | 9.02 | 7.80 | 236.34 |
| 1987:1* | 5.53 | 7.50 | 9.06 | 8.37 | 7.87 | 2[illegible]9.30 |
| 2* | 5.66 | 8.05 | 8.98 | 9.17 | 8.53 | 293.27 |
| 3 | 6.67 | 8.58 | 9.10 | 9.32 | 9.51 | 321.50 |
| 4 | 6.79 | 8.75 | 10.59 | 9.38 | 9.19 | 264.50 |
| YEAR | 6.16 | 8.22 | 9.43 | 9.06 | 8.78 | 289.64 |
| % change from '86 | 3.2 | -1.3 | -3.9 | .4 | 12.5 | 22.6 |
| 1988:1 | 6.74 | 8.65 | 10.42 | 9.42 | 9.13 | 276.52 |
| 2 | 6.67 | 8.62 | 10.21 | 9.58 | 8.95 | 281.69 |
| 3 | 6.54 | 8.59 | 9.90 | 9.38 | 8.74 | 285.87 |
| 4 | 6.39 | 8.76 | 9.85 | 9.24 | 8.35 | 289.74 |
| YEAR | 6.58 | 8.65 | 10.10 | 9.41 | 8.79 | 283.45 |
| % change from '87 | 6.9 | 5.3 | 7.0 | 3.8 | .2 | -2.1 |
| 1989:1 | 6.25 | 8.45 | 9.85 | 9.14 | 8.26 | 290.41 |
| 2 | 6.16 | 8.67 | 9.74 | 9.12 | 8.20 | 295.30 |
| 3 | 6.32 | 8.98 | 9.61 | 9.25 | 8.28 | 306.91 |
| 4 | 6.49 | 9.24 | 9.42 | 9.38 | 8.64 | 309.21 |
| YEAR | 6.30 | 8.84 | 9.65 | 9.22 | 8.34 | 300.46 |
| % change from '88 | -4.3 | 2.1 | -4.4 | -1.9 | -5.1 | 6.0 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Personal Consumption Expenditures on Nondurables (bil. $) has been selected for comparison. Actual numbers for 1986 are in the Survey of Current Business, August 1987 issue, Table 1.1 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data have been obtained from data in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Personal Consumption Expenditures on Nondurables, bil. $)
Actual figure: 939.4

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy (%) |
|---|---|---|---|
| Manufacturer Hanover Trust Co., p. 45 | 12/85 | 942.7 | +3.5 |
| UCLA Business Forecasting Project, p. 46 | 12/85 | 937.6 | - .2 |
| Research Seminar in Quantitative Economics, Univ. of Michigan, p. 49 | 12/12/85 | 941.7 | + .2 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 959.0 | +2.1 |
| Standard & Poor's Corporation, p. 58 | 1/16/86 | 927.2 | -1.3 |
| Money Market Services, Inc., p. 64 | 1/27/86 | 967.3 | +3.0 |
| Georgia State University, p. 66 | 2/86 | 954.8 | +1.6 |
| KEDI, Inc., p. 67 | 2/1/86 | 955.5 | +1.7 |

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employ-ment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home snipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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# KEDI ECONOMIC SURVEY

January 1, 1988

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SOURCES:

U.S.Department of Commerce third estimate of 1987:3, National Income and Product data, December 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, December 1987.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

### HIGHLIGHTS

#### Real Growth

There are virtually no signs of negative impact from the October stock market adjustment on the growth of the economy.

#### Prices

No significant inflationary price rises are forecasted for 1988 and 1989. Average earnings will increase slightly.

#### Employment & Labor

Forecast data for the 1988 labor market are optimistic, calling for approximately 2 million new jobs created this year.

#### Housing

Sales of single family homes fell 1.2% in November from the October level, and are expected to stay low in December.

#### Automobiles

Forecast of car sales in 1989 remain mixed: 14.5 million cars and light trucks compared to estimated 14.9 in 1987.

#### Budgets

Budget proposals for the next fiscal year point to the $136 bil. deficit, target range of Gramm-Rudman.

#### Income

Forecast data for 1988 and 1989 corporate earnings are positive with gains in the majority of segments.

#### Money & Credit

It is anticipated that the monetary and credit policy of the Federal Reserve will remain not restrictive.

#### Interest Rates, Yields & Securities Prices

Forecast data on the U.S. interest rates point to stable levels in the first half of 1988, with slight declines in second half.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will last throughout 1988. More tightening is not expected earlier than in 1989. | November 1987 |
| 3. | In 1988 and 1989 good crops in all main producing countries are anticipated. | November 1987 |
| 4. | Foreign trade with China will expand in 1988 and following years. | May 1987 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% reat Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6% | September 1987 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the November 1987 KEDI forecast.
* In 1988 solid growth is expected. It will continue in the second half of 1988.
* The upward trend will continue throughout 1990-1991.
* Forecast data for 1988-1991 do not point to recession or major downturn.
* In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.
* Federal budget deficits will keep declining in 1988 and the followiny years.
* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1987, 1988 and 1989 are on pages indicated below.

| Indicator | Unit | 1986 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3713.3 | 4184.9 | 4289.5 | 4401.1 |
| product, p. 5 | % change | 2.9 | 2.9 | 2.5 | 2.6 |
| Index of indust. | 1977=100 | 125.1 | 142.5 | 147.2 | 152.3 |
| prod., p. 5 | % change | 1.0 | 3.2 | 3.3 | 3.4 |
| Capacity | % | 79.6 | 82.9 | 82.0 | 81.3 |
| utiliz., p. 5 | % change | -1.0 | .3 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 5.9 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | .8 | -1.1 | -.9 |
| Private housing | mil.units | 1.8 | 1.8 | 1.8 | 1.9 |
| starts, p. 5 | % change | -4.2 | 4.8 | -2.0 | 3.5 |
| Car sales, | mil.units | 11.5 | 10.8 | 10.9 | 11.4 |
| p. 5 | % change | 3.2 | 3.5 | 1.1 | 4.0 |
| Implicit GNP | 1982=100 | 114.5 | 133.5 | 138.3 | 143.4 |
| price def.,p.11 | % change | 2.6 | 3.7 | 3.6 | 3.7 |
| Consumer Price | 1967=100 | 328.4 | 383.5 | 395.4 | 409.6 |
| Index, p. 11 | % change | 1.9 | 3.9 | 3.1 | 3.6 |
| Prod.Price Index | 1967=100 | 289.6 | 345.0 | 360.5 | 374.2 |
| (fin.goods),p.11 | % change | -1.6 | 4.4 | 4.5 | 3.8 |
| Federal Deficit | bil. $ | -220.0 | -96.2 | -77.8 | -62.5 |
| p. 21 | % change | 8.2 | -11.9 | -19.1 | -19.7 |
| Personal Income | bil. $ | 3534.3 | 4762.4 | 5091.0 | 5472.9 |
| p. 23 | % change | 5.8 | 7.4 | 6.9 | 7.5 |
| Prime Rate | % | 8.3 | 8.4 | 9.0 | 9.7 |
| p. 27 | % change | -11.6 | -4.8 | 7.2 | 7.8 |
| Mortgage Rate | % | 9.8 | 10.1 | 9.8 | 10.0 |
| p. 27 | % change | -11.7 | 6.0 | -2.7 | 1.8 |
| Currency+demand | bil. $ | 673.2 | 873.0 | 929.7 | 992.9 |
| deposits , p. 25 | % change | 13.4 | 6.8 | 6.5 | 6.8 |
| Commercial+ind. | bil. $ | 517.6 | 587.2 | 545.6 | 3540.4 |
| loans, p. 25 | % change | 5.3 | 3.0 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 87.4 | 91.2 | 90.8 | 91.3 |
| production | % change | -.1 | .4 | .9 | .4 |
| Electric power | mil.kw-hr | 2614 | 3355.8 | 3342.8 | 3499.6 |
| production | % change | 6.0 | 3.8 | 3.7 | 4.7 |
| Bituminous coal | mil.sh.tons | 872 | 936 | 973.3 | 984.1 |
| production | % change | -.1 | 1.1 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3261 | 2361 | 2371.7 | 2426.2 |
| output | % change | .8 | 2.1 | 2.2 | 2.3 |
| Retail sales | bil. $ | 1454.4 | 1868.2 | 1995.2 | 2134.9 |
| p. 7 | % change | 6.0 | 7.2 | 6.8 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

1988 FORECAST DATA

Percent Change from December 1987 Forecast

| | | |
|---|---|---|
| + | 1.07% | Capac. Util. |
| + | .97% | Private Housing Starts |
| + | .86% | Unemp-loy-ment |
| + | .73% | Autos |
| + | .13% | Index Indus. Prod. |
| - | .15% | GNP |

THERE ARE VIRTUALLY NO SIGNS OF NEGATIVE IMPACT FROM THE OCTOBER STOCK MARKET ADJUSTMENT ON THE GROWTH OF THE ECONOMY. Recently released data point to future development for at least the next six months.

* Unfilled orders in manufacturing in November rose to 400.96 bil. from revised $398.63 bil in October, seas. adj.
* The December industrial production is expected to gain further after the .4% increase in November, and 1.1% jump in Oct.
* The monthly surveys of Purchasing Agents indicate that the growth of the economy is accelerating.
* In the recent Dun & Bradstreet survey of 5000 companies, most said that the October crash had no impact on their capital spending plans.
* Factory shipments in November rose to $207.33 bil., seas. adj., from $206.39 bil. in October.
* The November unemployment rate dropped to its lowest 8 year level.
* Retail sales data for November and early December indicate that consumer spending did not fall apart after the October plunge.
* Exports continue to increase sharply while imports behave moderately. That points to gradual improvements in the balance of trade in months ahead.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unem-ploy ment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 3713.3 | 125.1 | 7.04 | 79.6 | 1.805 | 11.5 |
| 1987:1* | 3772.2 | 126.9 | 6.67 | 80.0 | 1.822 | 9.6 |
| 2* | 3795.3 | 128.2 | 6.23 | 80.5 | 1.612 | 9.5 |
| 3* | 3835.9 | 130.8 | 5.92 | 81.4 | 1.537 | 10.1 |
| 4 | 3862.5 | 132.3 | 5.90 | 82.2 | 1.442 | 9.9 |
| YEAR | 3816.5 | 129.6 | 6.18 | 79.6 | 1.603 | 9.8 |
| % change from '86 | 2.8 | 3.6 | -12.2 | 0.0 | -11.2 | -15.0 |
| 1988:1 | 3879.1 | 132.9 | 5.95 | 82.5 | 1.597 | 9.7 |
| 2 | 3890.2 | 134.7 | 5.90 | 82.7 | 1.725 | 10.0 |
| 3 | 3922.6 | 136.2 | 5.86 | 83.0 | 1.793 | 11.1 |
| 4 | 4047.6 | 136.5 | 5.81 | 83.3 | 1.751 | 10.7 |
| YEAR | 3934.9 | 135.1 | 5.88 | 82.9 | 1.716 | 10.4 |
| % change from '87 | 3.1 | 4.3 | -4.9 | 4.1 | 7.1 | 6.1 |
| 1989:1 | 4057.1 | 136.9 | 5.84 | 83.3 | 1.649 | 10.0 |
| 2 | 4060.3 | 137.6 | 5.86 | 83.2 | 1.796 | 10.4 |
| 3 | 4070.2 | 138.8 | 5.90 | 83.0 | 1.883 | 10.9 |
| 4 | 4080.3 | 139.2 | 5.88 | 81.0 | 1.792 | 10.5 |
| YEAR | 4067.0 | 138.1 | 5.87 | 82.6 | 1.780 | 10.4 |
| % change from '88 | 3.4 | 2.3 | -.2 | -.3 | 3.7 | .7 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988 FORECAST DATA

| Percent Change from December 1987 Forecast | |
|---|---|
| + 1.58% | Pers. Con. Exp. Durables |
| + 1.16% | Retail Sales Nondurable |
| 0.00% | Retail Sales Total |
| - .01% | Pers. Con. Exp. Nondurable |
| - 1.05% | Pers. Con. Exp. Services |
| - 1.84% | Retail Sales Nondurable |

MODERATE, SOLID GROWTH OF CONSUMER SPENDING IS FORECAST THROUGHOUT ALL OF 1988.

Preliminary data for the most of December indicate that retail sales will be stronger when compared to previous months.

KEDI forecast for 1988 retail sales is optimistic: data do not indicate any consumer recession forecasted by some economic doomsayers to take place in coming months.

The main stimuli for increases in the 1988 consumer spending are:

* Increase in the number of new employed people--KEDI forecasts approximately 2 mil. new jobs which will bring a significant boost to the total personal income available for spending.

* Effects of the 1986 Tax Reform Act which will contribute to increases of personal disposable income.

* Continuous increases in consumer credit throughout the year.

That translates into a moderate upwards trend in consumer spending though not as percipitous as it was in 1986. The largest increases in consumer spending are expected to take place in services, and good increases in spending on nondurables. Durable sales are expected to remain slugghish throughout the first half of the year and will gain momentum afterwards.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *--Personal Cons. Expend.- Durables | Nondur-ables | Services | **------Retail Sales------* Total | Durables | Nondur-ables |
|---|---|---|---|---|---|---|
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1986* | 402.4 | 939.4 | 1458.0 | 1454.4 | 568.1 | 888.3 |
| 1987:1* | 396.1 | 969.9 | 1527.7 | 1483.2 | 563.5 | 926.8 |
| 2* | 409.0 | 982.1 | 1552.6 | 1515.6 | 567.1 | 948.5 |
| 3* | 436.8 | 986.4 | 1588.1 | 1559.4 | 581.9 | 977.5 |
| 4 | 430.1 | 998.3 | 1616.5 | 1581.6 | 598.9 | 982.7 |
| YEAR | 418.0 | 984.2 | 1571.2 | 1535.0 | 577.9 | 958.9 |
| % change from '86 | 3.9 | 4.8 | 7.8 | 5.5 | 1.7 | 7.9 |
| 1988:1 | 437.9 | 1016.1 | 1671.6 | 1595.0 | 601.2 | 993.8 |
| 2 | 437.8 | 1034.1 | 1710.1 | 1615.4 | 611.5 | 1003.9 |
| 3 | 439.9 | 1049.0 | 1724.3 | 1659.3 | 637.8 | 1021.5 |
| 4 | 451.5 | 1056.2 | 1878.9 | 1685.5 | 650.1 | 1035.4 |
| YEAR | 441.8 | 1038.8 | 1746.2 | 1638.8 | 625.1 | 1013.7 |
| % change from '87 | 5.7 | 5.6 | 11.1 | 6.8 | 8.2 | 5.7 |
| 1989:1 | 454.2 | 1068.8 | 1917.2 | 1716.4 | 586.6 | 1129.8 |
| 2 | 458.4 | 1083.9 | 1929.7 | 1731.0 | 690.7 | 1040.3 |
| 3 | 459.8 | 1095.7 | 2057.8 | 1750.4 | 709.2 | 1041.2 |
| 4 | 468.5 | 1108.2 | 2046.6 | 1773.1 | 719.5 | 1053.6 |
| YEAR | 460.2 | 1089.2 | 1987.8 | 1742.7 | 676.5 | 1066.2 |
| % change from '88 | 4.2 | 4.8 | 13.8 | 6.3 | 8.2 | 5.2 |

## 1.13 REAL GNP

See Table 1.13
Page 9

1988
FORECAST
DATA

Percent Change
from
December 1987
Forecast

| | | |
|---|---|---|
| + | .43% | Gross Private Dom. Inv. |
| + | .02% | Federal Govt. Purch. |
| - | .01% | State Local Purch. |
| - | .15% | GNP |
| - | .22% | Pers. Cons. Expend. |
| - | .47% | Net Exports |

U. S. DEPARTMENT OF COMMERCE FINAL DATA ON THE THIRD QUARTER OF 1987 GNP AND INCOME ARE SOMEWHAT BETTER THAN THOSE RELEASED IN NOVEMBER.

In 1987:3 real GNP increased at 4.3% annual rate (previously estimated at 4.1%), compared to 2.5% rate of 1987:2.

INCREASES IN COMPONENTS OF REAL GNP

(U.S. Dept. of Commerce estimates, bil. $, seasonally adjusted)

| | 1987:2 | 1987:3 |
|---|---|---|
| Pers. Cons. Expenditures | + 11.6 | + 33.2 |
| Nonresidential Fixed Invest. | + 11.9 | + 25.9 |
| Residential Investment | - 1.4 | - 3.3 |
| Net Exports | + 2.5 | - 5.7 |
| Government Purchases | + 5.3 | + 3.7 |

Data show, in general, a strong performance, and point to a good outcome in 1987:4 and entire 1987

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *----------Gross National Product---------- | | | | | * |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1986* | 3713.3 | 2450.5 | 654.0 | -145.8 | 332.5 | 422.1 |
| 1987:1* | 3772.2 | 2475.9 | 671.8 | -135.2 | 327.3 | 432.3 |
| 2* | 3795.3 | 2487.5 | 673.7 | -132.7 | 332.6 | 434.4 |
| 3* | 3835.9 | 2520.7 | 681.9 | -138.4 | 336.3 | 435.4 |
| 4 | 3862.5 | 2545.6 | 678.6 | -135.9 | 337.2 | 437.0 |
| YEAR | 3816.5 | 2507.4 | 676.5 | -135.6 | 333.4 | 434.8 |
| % change from '86 | 2.8 | 2.3 | 3.4 | -7.0 | .3 | 3.0 |
| 1988:1 | 3879.1 | 2560.8 | 668.7 | -129.6 | 338.4 | 440.8 |
| 2 | 3890.2 | 2559.2 | 674.9 | -126.7 | 340.3 | 442.5 |
| 3 | 3922.6 | 2572.6 | 679.7 | -118.4 | 343.8 | 444.9 |
| 4 | 4047.6 | 2677.6 | 686.4 | -112.6 | 348.2 | 448.0 |
| YEAR | 3934.9 | 2596.1 | 677.4 | -121.8 | 342.7 | 444.1 |
| % change from '87 | 3.1 | 3.5 | .1 | -10.1 | 2.8 | 2.1 |
| 1989:1 | 4057.1 | 2678.0 | 689.6 | -110.8 | 350.2 | 450.1 |
| 2 | 4060.3 | 2672.2 | 693.2 | -111.6 | 352.6 | 453.9 |
| 3 | 4070.2 | 2669.7 | 695.7 | -108.4 | 356.8 | 456.4 |
| 4 | 4080.3 | 2670.0 | 696.2 | -105.6 | 359.8 | 459.9 |
| YEAR | 4067.0 | 2692.7 | 693.7 | -109.1 | 350.1 | 455.1 |
| % change from '88 | 3.4 | 3.7 | 2.4 | -10.4 | 2.2 | 2.5 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
December 1987
Forecast

| | | |
|---|---|---|
| - .01% | Consumer Price Index | Measured by the CPI, inflation heated up only temporarily and now it is settling back where it has been for the past four years. |
| - .04% | State Local Purch. | |
| - .06% | GNP | Forecast data for the Producer Price Index for Finished Goods in 1988 do indicate a slight acceleration in inflation--no cause for undue alarm on prices, mainly since no abrupt upwards changes in prices of energy, food stuffs, and crude materials are expected. |
| - .17% | Pers. Cons. Expend. | |
| - .19% | Federal Govt. Purch. | |
| - .36% | Producer Price Index | The expected 4.4% CPI inflation in 1987 is almost exclusively due to the energy prices which rose in 1987 by approximately 8.2%, mostly in the first half of the year. In 1988 oil prices are expected to move more moderately. |

NO SIGNIFICANT INFLATIONARY PRICE RISES ARE FORECASTED FOR 1988 AND 1989.

Average hourly earnings are predicted to increase only slightly, from $9.12 estimated for 1987 to $9.16 in 1988 and $9.21 in 1989. That indicates no significant inflationary upward pressures in either of the forecast years.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | *---Indexes--* Cons. price index n.s.a.** | Prod. price index n.s.a.** | *-------Price deflators--------* Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
|---|---|---|---|---|---|---|
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1986* | 328.4 | 289.7 | 114.1 | 114.3 | 110.2 | 119.3 |
| 1987:1* | 334.8 | 292.1 | 116.1 | 116.9 | 112.1 | 122.4 |
| 2* | 338.8 | 296.0 | 117.1 | 118.3 | 114.1 | 123.9 |
| 3* | 342.2 | 298.1 | 117.9 | 119.5 | 113.6 | 125.6 |
| 4 | 345.5 | 301.9 | 118.7 | 119.9 | 114.9 | 126.9 |
| YEAR | 340.3 | 297.0 | 117.5 | 118.7 | 113.7 | 124.7 |
| % change from '86 | 3.6 | 2.5 | 2.9 | 3.8 | 3.2 | 4.5 |
| 1988:1 | 348.8 | 305.7 | 120.4 | 121.9 | 115.8 | 128.1 |
| 2 | 352.0 | 311.0 | 121.9 | 123.9 | 117.1 | 129.0 |
| 3 | 355.4 | 315.1 | 122.7 | 124.7 | 118.5 | 131.7 |
| 4 | 358.8 | 318.9 | 123.9 | 126.3 | 120.1 | 132.6 |
| YEAR | 353.8 | 312.7 | 122.2 | 124.2 | 117.9 | 130.3 |
| % change from '87 | 3.9 | 5.3 | 4.1 | 4.6 | 3.7 | 4.5 |
| 1989:1 | 362.7 | 323.1 | 125.4 | 128.3 | 121.3 | 133.0 |
| 2 | 366.3 | 328.5 | 126.8 | 129.9 | 122.5 | 135.0 |
| 3 | 370.6 | 333.1 | 130.7 | 135.0 | 124.0 | 137.1 |
| 4 | 376.8 | 337.0 | 131.9 | 135.8 | 125.9 | 139.2 |
| YEAR | 369.1 | 330.4 | 128.7 | 132.2 | 123.4 | 136.1 |
| % change from '88 | 4.3 | 5.7 | 5.3 | 6.5 | 4.7 | 4.4 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1988 FORECAST DATA

Percent Change from December 1987 Forecast

| | | |
|---|---|---|
| + | .90% | Gross Private Dom. Inv. |
| - | .02% | State Local Purch. |
| - | .15% | Federal Govt. Purch. |
| - | .25% | GNP |
| - | .37% | Pers. Cons. Expend. |
| - | .37% | Net Exports |

FOURTH QUARTER 1987 DATA ON NOMINAL GNP AND COMPONENTS ARE EXPECTED TO SHOW FURTHER IMPROVEMENTS, MAINLY IN NET EXPORTS, BUSINESS FIXED INVESTMENTS, AND CONSUMER SPENDING.

Net exports will decline byu approximately $4 bil. when compared to 1987:3. Preliminary data on foreign trade merchandise balance for October and November point to strong gains in exports, while imports will remain at levels of approximately those of the third quarter.

Estimate of personal consumption expenditures for 1987:4 also shows a good improvement--and approximate $80 bil. gain compared to the $67 bil. increase in the third quarter.

The negative side is represented by a decline in residential spending, due to the cyclical drop in housing construction, expected to resume its upward trend not earlier than in the second quarter of this year.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *----------Gross National Product----------* | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 4235.0 | 2799.8 | 671.0 | -105.5 | 366.2 | 503.5 |
| 1987:1* | 4377.7 | 2893.8 | 699.7 | -112.2 | 366.9 | 529.3 |
| 2* | 4445.1 | 2943.7 | 702.6 | -118.4 | 379.6 | 537.6 |
| 3* | 4524.0 | 3011.3 | 707.4 | -123.7 | 382.1 | 546.9 |
| 4 | 4584.8 | 3044.9 | 710.5 | -120.6 | 387.4 | 554.6 |
| YEAR | 4483.4 | 2973.0 | 705.0 | -118.7 | 379.0 | 542.1 |
| % change from '86 | 5.9 | 6.2 | 5.1 | 12.5 | 3.5 | 7.7 |
| 1988:1 | 4670.4 | 3125.6 | 712.2 | -118.9 | 391.9 | 564.7 |
| 2 | 4742.2 | 3182.0 | 718.9 | -117.4 | 398.5 | 570.8 |
| 3 | 4813.0 | 3213.2 | 722.8 | -110.1 | 407.4 | 585.9 |
| 4 | 5015.0 | 3386.6 | 729.3 | -109.1 | 418.2 | 594.0 |
| YEAR | 4810.1 | 3226.9 | 720.8 | -113.9 | 404.0 | 578.9 |
| % change from '87 | 7.3 | 8.5 | 2.2 | -4.1 | 6.6 | 6.8 |
| 1989:1 | 5087.6 | 3440.2 | 736.1 | -108.3 | 424.8 | 598.6 |
| 2 | 5148.5 | 3472.0 | 740.4 | -107.1 | 431.9 | 612.8 |
| 3 | 5319.8 | 3613.3 | 746.5 | -98.4 | 442.4 | 625.7 |
| 4 | 5381.9 | 3623.3 | 754.3 | -92.2 | 453.0 | 640.2 |
| YEAR | 5244.4 | 3564.1 | 744.3 | -101.5 | 438.0 | 619.3 |
| % change from '88 | 9.0 | 10.5 | 3.3 | -10.9 | 8.4 | 7.0 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988 FORECAST DATA

Percent Change from December 1987 Forecast

| | | |
|---|---|---|
| + | .85% | Unemployment rate |
| + | .02% | Population |
| | 0.00& | Agriculture |
| - | .12% | Civilian Labor Force |
| - | .26% | Total Employed |
| - | .26% | Non-Agri. |

FORECAST DATA FOR THE 1988 LABOR MARKET ARE OPTIMISTIC, CALLING FOR APPROXIMATELY 2 MILLION NEW JOBS CREATED THIS YEAR.

In December 1987, manufacturing new jobs are expected to increase at least 30,000 after the 89,000 rise in November, mainly due to the export stimulus, electrical equipment industries, and many segments of nondurable manufacturing.

In 1988 expect further gains in durable manufacturing, especially metal products, electrical and nonelectrical machinery, stone, clay and glass products.

In nondurable manufacturing: foods and kindred products, paper and products, chemicals and products, and rubber and plastics. Good gains are expected in construction, oil and gas extraction, and some metallic and nonmetallic ores mining, especially copper, zinc, lead and bauxite.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *-------Employment-------* Total | Agricult. | Non-agric. | Unemployment rate |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1986* | 241.5 | 119.5 | 109.6 | 3.2 | 106.4 | 7.04 |
| 1987:1* | 242.9 | 119.8 | 111.2 | 3.2 | 108.1 | 6.67 |
| 2* | 243.8 | 121.5 | 113.9 | 3.1 | 110.8 | 6.23 |
| 3 | 245.0 | 122.4 | 115.2 | 3.1 | 112.1 | 5.92 |
| 4 | 246.9 | 123.5 | 116.2 | 3.1 | 113.1 | 5.90 |
| YEAR | 244.7 | 121.8 | 114.6 | 3.1 | 111.5 | 6.18 |
| % change from '86 | 1.3 | 1.9 | 1.8 | -2.3 | 4.8 | -12.22 |
| 1988:1 | 247.9 | 124.3 | 116.9 | 3.1 | 113.8 | 5.95 |
| 2 | 249.6 | 125.0 | 117.6 | 3.1 | 114.5 | 5.90 |
| 3 | 250.4 | 125.1 | 117.8 | 3.1 | 114.7 | 5.86 |
| 4 | 251.5 | 125.8 | 118.5 | 3.1 | 115.4 | 5.81 |
| YEAR | 249.8 | 125.0 | 117.7 | 3.1 | 114.6 | 5.88 |
| % change from '87 | 2.1 | 2.7 | 2.8 | -.8 | 2.8 | -4.85 |
| 1989:1 | 253.9 | 126.5 | 119.1 | 3.1 | 116.0 | 5.84 |
| 2 | 254.3 | 127.2 | 119.7 | 3.0 | 116.7 | 5.86 |
| 3 | 255.1 | 127.9 | 120.4 | 3.0 | 117.4 | 5.90 |
| 4 | 256.0 | 128.7 | 121.1 | 3.0 | 118.1 | 5.88 |
| YEAR | 254.8 | 127.6 | 120.1 | 3.1 | 117.0 | 5.87 |
| % change from '88 | 2.0 | 2.0 | 2.0 | 0.0 | 2.1 | -.17 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1988 FORECAST DATA

Percent Change from December 1987 Forecast

| | | |
|---|---|---|
| + | .83% | Mobile Home Shipments |
| + | .63% | Multiple Family Housing Starts |
| + | .13% | Permits Issued |
| - | .04% | 1-Family Unit price Existing |
| - | .30% | 1-Family Unit price New |
| - | .31% | Single Family Housing Starts |

SALES OF SINGLE FAMILY HOMES FELL 1.2% IN NOVEMBER FROM THE OCTOBER LEVEL, AND ARE EXPECTED TO STAY AT LOW LEVELS IN DECEMBER.

Also, the relatively low level of 1,639,000 units starts in November is expected to futher decline to approximately 1.4 mil. units. That points to a 13%, or more, fall from all 1987 when compared to 1986.

This decline has been expected since the housing cycle has been winding down since 1986.

The forecast calls for resurgence of housing in 1988, as seen from data on the following page.

Economists attribute the slump in housing mainly to high mortgage rates and the housing cycle, and NOT to consequences of the October stock market decline. KEDI shares that opinion.

KEDI expects the trough of the housing cycle has been reached in 1987:4 and will continue shortly in 1988.

Look for a general upward trend to start in 1988:2.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1986* | 1.179 | .628 | .244 | 1.750 | 112.6 | 98.3 |
| 1987:1* | 1.256 | .539 | .234 | 1.684 | 121.1 | 103.9 |
| 2* | 1.136 | .476 | .232 | 1.547 | 125.9 | 105.8 |
| 3 | 1.112 | .425 | .230 | 1.501 | 131.0 | 108.0 |
| 4 | 1.050 | .392 | .246 | 1.400 | 135.3 | 112.8 |
| YEAR | 1.139 | .458 | .236 | 1.533 | 128.3 | 107.6 |
| % change from '86 | -3.4 | -27.1 | -3.5 | -12.4 | 14.0 | 9.5 |
| 1988:1 | 1.106 | .491 | .227 | 1.508 | 138.0 | 113.8 |
| 2 | 1.227 | .498 | .243 | 1.593 | 140.2 | 115.9 |
| 3 | 1.259 | .534 | .258 | 1.679 | 143.0 | 118.7 |
| 4 | 1.201 | .550 | .248 | 1.624 | 145.1 | 122.2 |
| YEAR | 1.198 | .518 | .244 | 1.601 | 141.6 | 117.7 |
| % change from '87 | 5.2 | 13.2 | 3.6 | 4.4 | 10.3 | 9.3 |
| 1989:1 | 1.148 | .501 | .232 | 1.509 | 150.1 | 124.6 |
| 2 | 1.228 | .568 | .240 | 1.657 | 151.6 | 127.3 |
| 3 | 1.294 | .589 | .282 | 1.764 | 152.4 | 130.1 |
| 4 | 1.218 | .574 | .277 | 1.969 | 153.0 | 133.9 |
| YEAR | 1.222 | .558 | .258 | 1.725 | 151.8 | 129.0 |
| % change from '88 | 2.0 | 7.7 | 5.6 | 7.7 | 7.2 | 9.6 |

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1988 FORECAST DATA

Percent Change from December 1987 Forecast

| | |
|---|---|
| + 6.43% | Total Light Truck Sales |
| + .99% | Shipments |
| + .83% | Imported Car Sales |
| + .34% | Domestic Car Sales |
| + .24% | Total Car Sales |
| 0.00% | Dealer Inventory |

FORECAST OF CAR SALES IN 1988 REMAINS MIXED: 14.0 MILLION CARS AND LIGHT TRUCK SALES COMPARED TO ESTIMATED 15.2 MILLION CARS AND LIGHT TRUCKS IN 1986.

The U. S. Department of Commerce forecasts 14.7 million sales of vehicles in 1988, 9.7 million cars and 5 million light trucks--more optimistic than KEDI's data.

As seen from Table 1.42 on the following page, KEDI forecasts sluggish sales to prevail in the first half of the year when the trough of the automobile cycle is expected to be reached.

Data for the second half of the year point to a rebound which will continue throughout 1989 and afterward.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 11.5 | 8.2 | 3.2 | 1.5 | 7.5 | 3.7 |
| 1987:1* | 9.6 | 7.0 | 2.6 | 1.9 | 7.7 | 3.4 |
| 2* | 9.5 | 6.8 | 2.7 | 1.9 | 7.5 | 3.5 |
| 3 | 10.1 | 7.0 | 3.1 | 1.8 | 7.7 | 3.8 |
| 4 | 9.9 | 6.7 | 3.0 | 1.7 | 7.5 | 3.8 |
| YEAR | 9.8 | 6.9 | 2.9 | 1.7 | 7.6 | 3.6 |
| % change from '86 | -15.4 | -16.2 | -10.9 | 13.3 | 1.3 | -2.0 |
| 1988:1 | 9.7 | 6.8 | 2.9 | 1.7 | 7.4 | 3.5 |
| 2 | 10.0 | 7.1 | 2.9 | 1.7 | 7.6 | 3.8 |
| 3 | 11.1 | 7.9 | 3.2 | 1.7 | 8.0 | 3.9 |
| 4 | 10.6 | 7.6 | 3.1 | 1.6 | 7.7 | 3.7 |
| YEAR | 10.3 | 7.3 | 3.0 | 1.6 | 7.7 | 3.7 |
| % change from '87 | 6.2 | -.0 | 6.1 | -5.9 | 1.0 | 2.8 |
| 1989:1 | 10.0 | 7.0 | 3.0 | 1.7 | 7.3 | 3.2 |
| 2 | 10.4 | 7.1 | 3.0 | 1.8 | 7.5 | 3.5 |
| 3 | 10.9 | 7.8 | 3.1 | 1.7 | 7.8 | 3.7 |
| 4 | 10.5 | 7.4 | 3.1 | 1.6 | 7.7 | 3.5 |
| YEAR | 10.4 | 7.4 | 3.0 | 1.6 | 7.6 | 3.5 |
| % change from '88 | 1.2 | -.5 | .8 | 0.0 | -1.3 | -6.7 |

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

| 1988 FORECAST DATA | Percent Change from December 1987 Forecast |
|---|---|
| State Local Corp. Tax Accrued | 0.00% |
| State Surplus/ Deficit | 0.00% |
| Federal Surplus/ Deficit | 0.00% |
| State Income Tax | - .06% |
| Federal Income Tax | - .07% |
| Corp. Profit Tax Accrued | - .12% |

BUDGET PROPOSALS FOR THE NEXT FISCAL YEAR (1989 STARTING OCTOBER 1, 1988) POINT TO THE $136 BIL. DEFICIT, THE TARGET RANGE OF THE GRAMM-RUDMAN BUDGET LAW, DOWN FROM THE $148 BIL. IN FY 1987 AND EXPECTED DEFICIT IN FY 1988.

Measured in calendar years, Federal budget deficits are expected to decline slightly throughout 1988, and significantly accelerate in 1989, mainly due to strong increases in personal and corporate income tax payment, and slowing down of the growth of Federal expenditures.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----FEDERAL----------* Income taxes | Corp. profits tax accru. | Surplus /deficit | *---STATE AND LOCAL----* Income taxes | Corp. profits tax accru. | Surplus /deficit |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 363.0 | 83.7 | -204.3 | 149.8 | 21.3 | 56.8 |
| 1987:1* | 381.5 | 103.0 | -170.5 | 154.6 | 25.0 | 41.0 |
| 2* | 415.6 | 107.9 | -139.2 | 162.3 | 26.4 | 50.6 |
| 3* | 403.9 | 111.8 | -143.1 | 161.8 | 26.6 | 51.0 |
| 4 | 419.8 | 113.1 | -145.5 | 163.7 | 27.4 | 52.1 |
| YEAR | 405.2 | 109.0 | -149.6 | 160.6 | 26.4 | 48.7 |
| % change from '86 | 11.6 | 30.2 | -26.8 | 7.2 | 23.7 | -14.3 |
| 1988:1 | 424.1 | 114.9 | -143.1 | 168.4 | 28.1 | 53.2 |
| 2 | 429.2 | 120.1 | -137.0 | 170.9 | 29.3 | 54.7 |
| 3 | 436.6 | 121.2 | -131.9 | 176.1 | 30.2 | 56.9 |
| 4 | 448.0 | 124.0 | -128.4 | 181.0 | 32.0 | 58.8 |
| YEAR | 434.5 | 120.0 | -135.1 | 174.1 | 29.9 | 55.9 |
| % change from '87 | 7.2 | 10.2 | -9.7 | 8.4 | 13.5 | 14.8 |
| 1989:1 | 452.1 | 125.0 | -118.1 | 183.4 | 32.1 | 59.8 |
| 2 | 457.6 | 127.1 | -110.2 | 185.3 | 33.7 | 60.7 |
| 3 | 466.9 | 129.9 | -106.3 | 187.7 | 35.3 | 61.7 |
| 4 | 471.6 | 132.7 | -102.2 | 192.0 | 37.1 | 63.0 |
| YEAR | 462.1 | 128.7 | -109.2 | 187.1 | 34.5 | 61.3 |
| % change from '88 | 6.3 | 7.2 | -19.2 | 7.5 | 15.6 | 9.7 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

| Percent Change from December 1987 Forecast | |
|---|---|
| - .01% | Average Weekly Earnings |
| - .30% | Personal Income |
| - .07% | Personal Disp. Income |
| - 1.00% | Comp. of Employees |
| - 1.28% | Corp. After Tax Earnings |
| - 1.64% | Personal Savings |

FORECAST DATA FOR 1988 AND 1989 CORPORATE EARNINGS ARE POSITIVE. STRONG GAINS IN EARNINGS AND AFTER-TAX PROFITS ARE PREDICTED FOR THE MAJORITY OF SEGMENTS.

Measured by after-tax profits, gain in 1988 over 1987 will be approximately 9.4%, with additional 15% in 1989 over 1988. The 1988 increase is, in general, anticipated by corporations.

Data on corporate budgets of major corporations largely ignore the October stock market plunge.

Forecast of personal income and personal disposable income and components is also optimistic for both years.

Gains in PI and PDI in 1988 are commensurate with expected increases in the number of employed persons. In 1989 the rate of growth of PI and PDI, and especially its largest component--compensation of employees--is expected to decline somewhat due to the expected slowing down of the economy at that time.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1986* | 3534.3 | 3022.1 | 2504.9 | 126.8 | 130.6 | 382.0 |
| 1987:1* | 3662.0 | 3125.9 | 2589.9 | 129.0 | 138.4 | 391.2 |
| 2* | 3708.6 | 3130.6 | 2623.8 | 134.5 | 93.2 | 403.1 |
| 3* | 3761.0 | 3195.3 | 2660.1 | 141.9 | 88.8 | 406.6 |
| 4 | 3831.8 | 3268.3 | 2740.0 | 149.4 | 89.4 | 408.3 |
| YEAR | 3740.8 | 3180.0 | 2653.4 | 138.7 | 102.5 | 402.3 |
| % change from '86 | 5.8 | 5.2 | 5.9 | 9.4 | -21.6 | 5.3 |
| 1988:1 | 3918.1 | 3325.6 | 2780.4 | 157.1 | 91.2 | 409.9 |
| 2 | 3979.9 | 3379.8 | 2810.2 | 159.6 | 93.7 | 413.9 |
| 3 | 4044.0 | 3431.3 | 2896.6 | 160.4 | 97.6 | 417.9 |
| 4 | 4251.2 | 3622.2 | 2940.6 | 164.2 | 100.7 | 420.6 |
| YEAR | 4048.3 | 3439.7 | 2856.9 | 160.3 | 95.8 | 415.6 |
| % change from '87 | 8.2 | 8.2 | 7.7 | 15.6 | -6.5 | 3.3 |
| 1989:1 | 4311.9 | 3676.4 | 2982.4 | 170.5 | 103.6 | 423.1 |
| 2 | 4359.8 | 3716.9 | 2982.7 | 172.4 | 108.4 | 425.2 |
| 3 | 4519.5 | 3864.9 | 3053.1 | 184.1 | 109.2 | 427.0 |
| 4 | 4546.0 | 3882.4 | 3089.3 | 185.5 | 110.5 | 428.3 |
| YEAR | 4434.3 | 3785.1 | 3026.9 | 178.1 | 107.9 | 425.9 |
| % change from '88 | 9.5 | 10.0 | 5.9 | 11.1 | 12.7 | 2.5 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change
from
December 1987
Forecast

| | |
|---|---|
| + .85% | Large Denom. Time Deposits |
| - 0.00% | Mortg. at savings inst'ns. |
| - .62% | Comm. & Indust. Loans at Banks. |
| - 1.03% | Consumer & Demand Deposits |
| - 2.12% | Consumer Install. Credit |
| - 3.51% | Time Deposits |

IT IS ANTICIPATED THAT THE MONETARY AND CREDIT POLICY OF THE FEDERAL RESERVE WILL REMAIN NOT RESTRICTIVE DESPITE PRONOUNCEMENTS OF SOME FEDERAL RESERVE OFFICIALS ON THE NECESSITY TO FIGHT INFLATION.

The growth of monetary aggregates in 1988 is expected to slow down when compared to 1987, mainly due to the trade and balance of payments gap which will be declining and would not require to generate as much of liquidity as it was the case in the past.

Forecast of the growth of credit aggregate shows moderate increases: consumer installment credit outstanding is expected to increase slightly less than it did in 1987. The increase in mortgage indebtness will be significantly larger than in 1987, mainly due to the resumption of housing activity. Forecast of commercial and industrial loans points to a small increment only.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at sav. inst'n. ** n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 673.2 | 2650.8 | 577.8 | 517.6 | 447.1 | 2566.7 |
| 1987:1* | 732.3 | 2821.7 | 579.9 | 520.4 | 449.3 | 2662.3 |
| 2* | 750.5 | 2840.3 | 587.9 | 526.1 | 459.8 | 2754.5 |
| 3* | 750.0 | 2865.2 | 602.2 | 532.3 | 466.9 | 2827.6 |
| 4 | 758.9 | 2894.7 | 610.4 | 540.1 | 486.1 | 2906.1 |
| YEAR | 747.9 | 2855.5 | 610.4 | 540.1 | 486.1 | 2906.1 |
| % change from '86 | 11.1 | 7.7 | 5.6 | 5.3 | 8.7 | 13.2 |
| 1988:1 | 767.0 | 2862.4 | 616.3 | 545.0 | 492.7 | 2945.3 |
| 2 | 774.3 | 2913.5 | 622.5 | 546.8 | 496.3 | 2987.8 |
| 3 | 785.4 | 2992.6 | 630.4 | 550.3 | 501.7 | 3069.5 |
| 4 | 796.8 | 3038.5 | 641.7 | 558.7 | 508.1 | 3140.3 |
| YEAR | 780.9 | 2951.8 | 641.7 | 558.7 | 508.1 | 3140.3 |
| % change from '87 | 4.4 | 3.4 | 5.1 | 3.4 | 4.5 | 8.1 |
| 1989:1 | 806.1 | 3117.5 | 650.2 | 562.3 | 506.8 | 3209.4 |
| 2 | 813.5 | 3162.8 | 660.3 | 563.3 | 513.4 | 3279.2 |
| 3 | 820.4 | 3217.4 | 680.2 | 565.2 | 517.3 | 3368.7 |
| 4 | 829.6 | 3278.5 | 691.3 | 570.1 | 530.2 | 3467.6 |
| YEAR | 817.4 | 3194.1 | 691.3 | 570.1 | 530.2 | 3467.6 |
| % change from '88 | 4.7 | 8.2 | 7.7 | 2.0 | 4.3 | 10.4 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1988 FORECAST DATA

Percent Change from December 1987 Forecast

| | |
|---|---|
| + .14% | 20 Year Govt. Bond Yield |
| - .30% | Treas. Bills 3 mo. Yield |
| - 2.69% | Prime Rate |
| - 3.62% | S & P's 500 Avg. |
| - 5.58% | Aaa Corp. Bond Rate |
| -11.01% | Conv. Mortg. Rate |

FORECAST DATA ON THE U. S. INTEREST RATES POINT TO STABLE LEVELS IN THE FIRST HALF OF 1988, WITH SLIGHT DECLINES IN THE SECOND HALF.

KEDI's optimistic outlook is backed up by the following:

* Deficit of the Federal government is expected to decline throughout the year, which means U.S. financial markets will no be exposed to such pressures from the Treasury as they had been in the past.

Interest rates in the industrialized counties, and in World financial centers are expected to remain low relative to the U.S. interest rates, and possibly will decline slightly. That means, there will not be outside pressures strong enough to push the U.S. interest rates up.

Furthermore, interest rates on mortgages and automobile credit are expected to stay at low levels because of the necessity to stimulate the housing and auto markets.

All that translates into the outlook of relatively low interest rates, no increases, but possible declines in months ahead.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 30 yr. Govt. bonds yield | S & P's 500 Avg 1941-43 = 10 |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | |
| Year & Qtr. | | | | | | |
| 1986* | 5.97 | 8.33 | 9.82 | 9.02 | 7.80 | 236.34 |
| 1987:1* | 5.53 | 7.50 | 9.06 | 8.37 | 7.87 | 279.30 |
| 2* | 5.66 | 8.05 | 8.98 | 9.17 | 8.53 | 293.27 |
| 3* | 6.03 | 8.40 | 9.02 | 9.76 | 9.39 | 319.37 |
| 4 | 6.64 | 8.60 | 9.10 | 9.88 | 9.46 | 251.62 |
| YEAR | 5.96 | 8.14 | 9.04 | 9.29 | 8.81 | 285.89 |
| % change from '86 | -.1 | -2.3 | -7.9 | 3.0 | 13.0 | 21.0 |
| 1988:1 | 6.74 | 8.50 | 9.14 | 9.46 | 9.16 | 257.53 |
| 2 | 6.61 | 8.42 | 9.01 | 9.18 | 8.96 | 271.65 |
| 3 | 6.50 | 8.29 | 8.76 | 8.28 | 8.74 | 280.80 |
| 4 | 6.39 | 8.46 | 9.04 | 8.62 | 8.35 | 282.75 |
| YEAR | 6.56 | 8.42 | 8.99 | 8.88 | 8.80 | 273.18 |
| % change from '87 | 10.0 | 3.4 | -.6 | -4.4 | -.1 | -4.4 |
| 1989:1 | 6.25 | 8.45 | 9.45 | 9.24 | 8.26 | 280.42 |
| 2 | 6.19 | 8.67 | 9.54 | 9.62 | 8.20 | 285.32 |
| 3 | 6.32 | 8.98 | 9.61 | 9.25 | 8.28 | 294.20 |
| 4 | 6.49 | 9.24 | 9.42 | 9.38 | 8.64 | 306.21 |
| YEAR | 6.31 | 8.84 | 9.50 | 9.37 | 8.34 | 291.54 |
| % change from '88 | -3.8 | 5.0 | 5.8 | 5.5 | -5.2 | 6.7 |

*Historical data.

## 2.0 GENERAL OUTLOOK

KEDI's 1988-1989 outlook is optimistic. For 1988 solid growth of the economy is predicted. Some slow down in 1989, but far from recession will take place. The source of growth will be on the goods producing side, with strong gains in exports and capital spending, and in the services segment.

Consumer spending is expected to be moderate. No recessionary downturn in real consumer outlays are predicted. Corporate profits are expected to grow strongly in both forecast years.

The rate of unemployment will stabilize around 5.9-6.0% throughout 1988. It will increase slightly in the first half of 1989.

The price outlook for consumer inflation calls for a 4% rate in both forecast years. The business inflation is predicted a bit higher--as measured by the Producer Price Index for finished goods, prices are expected to advance more rapidly: 5.3% in 1988 and 5.7% in the following year.

The interest rates forecast shows, in general, no significant changes in the first half of 1988, small declines in the second half of this year, and a resumption of the upwards trend afterwards. The main reasons why the economy will not have a recession are the following:

* Strong performance of goods producing industries, especially the exporting industries.

* Effects of tax rates reduction on consumer spending.

* Increase in the number of new jobs by approximately two million with commensurate gains in personal income.

* The Federal Reserve policy expected to keep interest rates on low levels.

* The election year.

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal - State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |